

ST. JOSEPH HOUSING COMMISSION
ST. JOSEPH, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006
AND
REPORTS ON COMPLIANCE AND
ON INTERNAL CONTROL

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name St. Joseph Housing Commission		County	
Fiscal Year End 3/31/2006		Opinion Date 10/17/2006		Date Audit Report Submitted to State			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

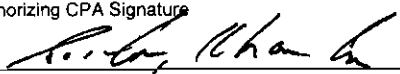
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Sailor, Khan & Co., LLC		Telephone Number 314-726-3308		
Street Address P.O. Box 16180		City St. Louis	State MO	Zip 63105
Authorizing CPA Signature 		Printed Name Shah I. Khan		License Number 1102001772

ST. JOSEPH HOUSING COMMISSION
St. Joseph, Michigan

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
St. Joseph Housing Commission
St. Joseph, Michigan

We have audited the accompanying basic financial statements of the St. Joseph Housing Commission, Michigan, (Commission) as of and for the year ended March 31, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

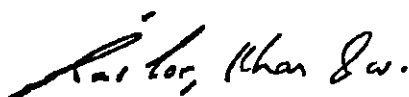
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the St. Joseph Housing Commission, Michigan, as of March 31, 2006, and the changes in its financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2006, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages ii to vi is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information including the Financial Data Schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Sailor, Khan & Co. LLC
October 17, 2006

St. Joseph Housing Commission

Management's Discussion and Analysis (MD&A) March 31, 2006 (Unaudited)

This section of the St. Joseph Housing Commission (Commission) annual financial report presents our management's discussion and analysis of the Commission's financial performance during the fiscal year ended on March 31, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

For accounting purposes, the Housing Commission is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of March 31, 2006 were \$1,284,177. The net assets increased by \$71,353, an increase of 5.9% over the prior year.

Revenues and contributions for the Commission were \$629,931 for the year ended March 31, 2006. This was a decrease of \$18,974 or 2.9% from the prior year.

Expenses for the Commission were \$549,911 for the year ended March 31, 2006. This was an increase of \$29,154 or 5.6% from the prior year.

HUD operating grants were \$127,437 for the year ended March 31, 2006. This was an increase of \$23,642 or 22.8% over the prior year. Capital contributions for the Commission were \$157,612 for the year ended March 31, 2006. This was a decrease of \$77,653 or 33% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund level financial statements because the Commission only has proprietary funds.

Required Financial Statements

The financial statements of the Housing Commission report information of the Commission using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

Management's Discussion and Analysis (MD&A) - Continued

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established *Uniform Financial Reporting Standards* that require Housing Commission's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended March 31, 2006 and is required to be included in the audit reporting package

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$1,284,177 at the close of the year ended March 31, 2006 up from \$1,212,824 in 2005. The increase in net assets of \$71,353 was due to the change in net assets for the year.

The unrestricted net assets were \$372,112 as of March 31, 2006. This amount may be used to meet the Commission's ongoing obligations. The Commission had no net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF NET ASSETS
MARCH 31,**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 420,832	\$ 349,297	\$ 71,535	20.5%
Capital assets	<u>912,065</u>	<u>904,641</u>	<u>7,424</u>	0.8%
Total Assets	<u>1,332,897</u>	<u>1,253,938</u>	<u>78,959</u>	6.3%
Current liabilities	46,320	41,114	5,206	12.7%
Noncurrent liabilities	<u>2,400</u>	<u>---</u>	<u>2,400</u>	100.0%
Total Liabilities	<u>48,720</u>	<u>41,114</u>	<u>7,606</u>	18.5%
Net Assets				
Invested in capital assets	912,065	904,641	7,424	0.8%
Unrestricted	<u>372,112</u>	<u>308,183</u>	<u>63,929</u>	20.7%
Total Net Assets	<u>1,284,177</u>	<u>1,212,824</u>	<u>71,353</u>	5.9%
Total Liabilities and Net Assets	\$ <u>1,332,897</u>	\$ <u>1,253,938</u>	\$ <u>78,959</u>	

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the table on the following page, total revenues and contributions decreased by \$18,974. This was due to a decrease in capital contributions of \$77,653. There were increases in HUD operating grants of \$23,642, in other income of \$2,992 and in rental revenue of \$22,744. The majority of other revenue is income derived from rental of roof property to cell phone companies.

Interest Income increased by 200% from FYE 2005 jointly due to the management of funds in a variety of investment accounts at LaSalle Bank Midwest during FY 2006 and increases in interest rates by the Federal government. The St. Joseph Housing Commission has a five-year CD at Chemical Bank Shoreline with an interest rate that increases a half of a percent yearly.

Capital Contributions decreased by 33% from FY 2005. This is due to the fact that in FYE 2005, complete CFP funds from 2002 and 2003 were used, along with portions of CFP 2003A and CFP 2004. In FYE 2006, only the remainder of CFP 2004, a portion of CFP 2003A and a portion of CFP 2005 were used. The use of capital funds from several grant years skews the FYE 2005 contribution to appear much higher than normal, thus causing the appearance of a high loss in FYE 2006. The main project completed in FYE 2006 was the exterior brick restoration project.

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
MARCH 31,**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues and Contributions				
Operating - non-operating -capital contributions:				
Rental revenue	\$ 296,533	\$ 273,789	22,744	8.3%
HUD operating grants	127,437	103,795	23,642	22.8%
Interest income	13,951	4,650	9,301	200.0%
Capital Contributions	157,612	235,265	(77,653)	-33.0%
Other income	34,398	31,406	2,992	9.5%
Total Revenues and Contributions	<u>629,931</u>	<u>648,905</u>	<u>(18,974)</u>	-2.9%
Expenses				
Personal services	169,766	173,991	(4,225)	-2.4%
Utilities	111,373	99,894	11,479	11.5%
Operations and maintenance	52,498	44,216	8,282	18.7%
Non routine maintenanc	----	124	(124)	-100.0%
Insurance	18,321	18,261	60	0.3%
Payment in lieu of taxes	20,734	19,371	1,363	7.0%
Other supplies and expenses	30,531	35,708	(5,177)	-14.5%
Depreciation	146,688	129,192	17,496	13.5%
Total Expenses	<u>549,911</u>	<u>520,757</u>	<u>29,154</u>	5.6%
Change in net assets	80,020	128,148	(48,128)	
Beginning net assets	1,212,824	1,084,676	128,148	
Prior period adjustments	<u>(8,667)</u>	<u>----</u>	<u>(8,667)</u>	
Beginning net assets, adjusted	<u>1,204,157</u>	<u>1,084,676</u>	<u>119,481</u>	
Ending net assets	\$ <u>1,284,177</u>	\$ <u>1,212,824</u>	\$ <u>71,353</u>	

The personal services expense decreased by 2.4% or \$4,225. This is primarily due to two long-term employees retiring and the hiring of new employees at a lesser rate of pay per hour. Also, one position was not filled for the first two months of the new fiscal year.

The overall utilities expense increased by 11.5% or \$11,479. The utilities expense is comprised of gas, water and electricity expenses. There was an increase in all utilities for FYE 2006: 11.6% for water, 7.5% for electric and 13% for gas. The increase in operations and maintenance of 18.7% (\$8,282) was primarily due to a concerted effort to target major repairs, i.e. repaired all broken seal windows, paint touch-up of entire building common areas, repair of broken seals on refrigerators, purchase of new handheld radios, etc. There was also a 52% increase in garbage and trash removal due to unusual amounts of discarded items by residents. Insurance costs increased by \$60, thus increasing by .3%.

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

The other supplies and expenses line item is comprised of a combination of expenses in the Low-Rent Program and other operating-administrative expenses of the grant funds. The Low-Rent Program consists of the legal expenses, travel expenses, accounting fees, audit fees, other administrative and sundry expenses, telephone expenses, and recreational and publication expenses. Administrative expenses in the grant fund are comprised primarily of educational expenses and costs for office improvements.

The occupancy level for this project was 97.4%. The Public Housing units are located at Lake View Terrace Highrise, 601 Port Street, St. Joseph, MI 49085.

CAPITAL ASSETS

Capital Assets - The St. Joseph Housing Commission's investment in capital assets, as of March 31, 2006 amounts to \$912,065 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION MARCH 31,

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>
Land	\$ 19,800	\$ 19,800	\$ ----
Building	2,905,066	1,576,172	1,328,894
Furniture, equipment and machinery- dwelling	37,926	36,365	1,561
Furniture, equipment and machinery- administration	75,287	70,508	4,779
Leasehold improvements	94,350	1,327,733	(1,233,383)
Construction in progress	<u>52,596</u>	<u>8,600</u>	<u>43,996</u>
	3,185,025	3,039,178	145,847
Accumulated depreciation	<u>2,272,960</u>	<u>2,134,537</u>	<u>138,423</u>
Total	<u>\$ 912,065</u>	<u>\$ 904,641</u>	<u>\$ 7,424</u>

The total increase in the Commission's capital assets for the current fiscal year was \$7,424 or 0.8% in terms of net book value. Actual expenditures to purchase equipment and construct capital assets were \$163,822 for the year. The Commission has \$179,896 available in Capital Funds to draw down and spend in the future.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Commission is primarily dependent upon HUD for the funding of operations; therefore, the Housing Commission is affected more by the Federal budget than by local economic conditions. The funding of programs could be significantly affected by the 2007 Federal budget.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Nancy E. Walker, Executive Director, St. Joseph Housing Commission, 601 Port Street, Office, St. Joseph, MI 49085.

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

STATEMENT OF NET ASSETS

March 31, 2006

ASSETS

Current Assets:

Cash and cash equivalents	\$ 289,734.79
Investments	122,543.06
Receivable - net of allowances:	
Accounts	981.50
Accrued interest	806.56
Prepaid expenses	<u>6,766.00</u>
 Total Current Assets	 <u>420,831.91</u>

Noncurrent Assets:

Capital assets:

Land, improvements, and construction in progress	72,396.70
Other capital assets, net of depreciation	<u>839,668.56</u>
 Total capital assets- net	 <u>912,065.26</u>
 Total Noncurrent Assets	 <u>912,065.26</u>
 Total Assets	 \$ <u><u>1,332,897.17</u></u>

See notes to financial statements

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

STATEMENT OF NET ASSETS (CONTINUED)

March 31, 2006

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 22,121.01
Accrued compensated absences	6,680.17
Tenant security deposit liability	11,291.00
Deferred revenues	<u>6,228.00</u>

Total Current Liabilities	<u>46,320.18</u>
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Noncurrent Liabilities:

Accrued compensated absences	<u>2,399.79</u>
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Total Noncurrent Liabilities	<u>2,399.79</u>
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Total Liabilities	<u>48,719.97</u>
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NET ASSETS

Invested in capital assets	912,065.26
Unrestricted	<u>372,111.94</u>

Total Net Assets	<u>1,284,177.20</u>
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Total Liabilities and Net Assets	<u>\$ 1,332,897.17</u>
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See notes to financial statements

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For Year Ended March 31, 2006

Operating Revenues:

Rental revenue	\$ 296,533.00
Operating subsidies- HUD grants	127,436.92
Other revenues	<u>34,398.04</u>

Total operating revenues	<u>458,367.96</u>
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Operating Expenses:

Personal services	169,765.51
Utilities	111,372.84
Operations and maintenance	52,498.07
Insurance	18,321.00
Payment in lieu of taxes	20,734.02
Other supplies and expenses	30,530.88
Depreciation	<u>146,688.36</u>

Total operating expenses	<u>549,910.68</u>
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Operating income (loss)	<u>(91,542.72)</u>
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Non-operating revenues (expenses):

Interest and investment earnings	<u>13,950.66</u>
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Net non-operating revenues (expenses)	<u>13,950.66</u>
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Income (loss) before other revenues, expenses, gains, losses and transfers	(77,592.06)
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Capital contributions	<u>157,612.25</u>
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Change in net assets	80,020.19
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Net assets at beginning of year	1,212,824.43
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Prior period error corrections	<u>(8,667.42)</u>
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Net assets adjusted at beginning of year	<u>1,204,157.01</u>
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Net assets at end of year	<u>\$ 1,284,177.20</u>
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See notes to financial statements

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

STATEMENT OF CASH FLOWS

For Year Ended March 31, 2006

Cash flows from operating activities:

Cash received from tenants	\$ 297,177.50
Cash received from HUD grants- operating	127,436.92
Cash received from other operating activities	34,398.04
Cash payments for goods and services	(199,952.61)
Cash payments to employees-salaries	(121,334.43)
Cash payments for employee benefit contributions	(46,607.21)
Cash payments for in lieu of property taxes	<u>(18,426.36)</u>

Net cash provided (used) by operating activities	<u>72,691.85</u>
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Cash flows from capital and related financing activities:

Capital contributions	159,009.00
Proceeds from sale of assets	97.42
Payments for capital assets	<u>(163,822.25)</u>

Net cash (used) for capital and related financing activities	<u>(4,715.83)</u>
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Cash flows from investing activities:

Proceeds from sale of (payments) for investments	(2,532.61)
Interest and dividends	13,566.04
Receipts (payments) from tenant security deposits	<u>1,579.00</u>

Net cash provided (used) from investing activities	<u>12,612.43</u>
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Net increase (decrease) in cash and cash equivalents	80,588.45
Cash and cash equivalents at beginning of year	<u>209,146.34</u>

Cash and cash equivalents at end of year	<u><u>\$ 289,734.79</u></u>
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See notes to financial statements

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

STATEMENT OF CASH FLOWS (CONTINUED)

For Year Ended March 31, 2006

**Reconciliation of operating income (loss) to net cash
provided (used) by operating activities:**

Operating income (loss)	\$ (91,542.72)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	146,688.36
Changes in assets and liabilities:	
Receivables	(981.50)
Prepaid expenses	11,555.00
Accounts and other payables	3,522.84
Deferred revenues	1,626.00
Compensated absences	<u>1,823.87</u>
Net cash provided (used) by operating activities	\$ <u><u>72,691.85</u></u>

See notes to financial statements

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS

March 31, 2006

NOTE 1 - Summary of Significant Accounting Policies

The St. Joseph Housing Commission (Commission) is a non-profit entity established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1a. Financial Reporting Entity

The Housing Commission's financial reporting entity comprises the following:

Primary Government: Housing Commission

In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB no 39, "The Financial Reporting Entity," and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1b. Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Commission's programs as an enterprise fund.

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1b. Basis of Presentation (Continued)

Following is a description of the Commission's programs:

Program	Brief Description
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.

1c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements, the "economic resources" measurement focus is used as follows:

- ▶ The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2b. and 3a.

Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable and accrued interest receivable compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Budgets and Budgetary Accounting

The Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

Estimates and Assumptions

The Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity (Continued)

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$500 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40	years
Furniture, equipment and machinery - dwelling	5 - 10	years
Furniture, equipment and machinery - administration	5 - 10	years
Leasehold improvements	15	years

Compensated Absences

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Commission had no related debt.
- b. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1e. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses and Change in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

NOTE 2 - Stewardship, Compliance, and Accountability

The Commission and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Commission's compliance with significant laws and regulations and demonstration of its stewardship over Commission resources follows.

2a. Program Accounting Requirements

The Commission's complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Commission are as follows:

Program	Required By
Public and Indian Housing	U.S. Department of Housing and Urban Development
Capital Fund Program	U.S. Department of Housing and Urban Development

2b. Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Commission must have a written collateral agreement. As reflected in Note 3a., all deposits were fully insured or collateralized.

Investments of the Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

NOTE 2 - Stewardship, Compliance, and Accountability (Continued)

2c. Revenue Restrictions

The Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization

For the year ended March 31, 2006, the Commission complied, in all material respects, with these revenue restrictions.

NOTE 3 - Detail Notes on Transaction Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3a. Cash and Investments

Deposits

The Commission's policies regarding deposits of cash are discussed in Note 1d. The table presented below is designed to disclose the level of custody credit risk assumed by the Commission based upon how its deposits were insured or secured with collateral at March 31, 2006. The categories of credit risk are defined as follows:

Category 1—Insured by FDIC or collateralized with securities held by the Commission (or public trust) or by its agent in its name

Category 2—Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name

Category 3—Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Commission's name; or collateralized with no written or approved collateral agreement

Type of Deposits	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand deposits	\$ 309,784.54	\$ 309,784.54	\$ ----	\$ ----	\$ 289,484.79
Total Deposits	\$ 309,784.54	\$ 309,784.54	\$ ----	\$ ----	\$ 289,484.79

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3a. Cash and Investments (Continued)

Investments

The Commission's policies and applicable laws regarding investments are discussed in Notes 1d. and 2b. The table presented below is designed to disclose the level of market risk and custody credit risk assumed by the Commission (or public trust) based upon whether the investments are insured or registered and upon who holds the security at March 31, 2006. The categories of credit risk are defined as follows:

Category 1—Insured or registered with securities held by the Commission or its agent in the Commission's name

Category 2—Uninsured and unregistered with securities held by counterparty's trust department or agent in the Commission's name

Category 3—Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Commission's name

	Custody Credit Risk			Carrying Amount	Fair Value
	Category 1	Category 2	Category 3		
Certificate of Deposit	\$ 122,543.06	\$ ----	\$ ----	\$ 122,543.06	\$ 122,543.06
	<u>\$ 122,543.06</u>	<u>\$ ----</u>	<u>\$ ----</u>	<u>\$ 122,543.06</u>	<u>\$ 122,543.06</u>

3b. Accounts Receivable

Receivables detail at March 31, 2006, is as follows:

Tenant accounts receivable	\$ 981.50
Allowance for doubtful accounts	<u>----</u>
Tenants accounts receivable - net	<u>\$ 981.50</u>

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3c. Capital Assets

Capital asset activity for the year ended March 31, 2006, was as follows:

	<u>Balance April 1, 2005</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>Transfers in (out)</u>	<u>Balance March 31, 2006</u>
Land	\$ 19,800.00	\$ -----	\$ -----	\$ -----	\$ 19,800.00
Building	1,576,172.36	110,255.35	(14,744.39)	1,233,382.98	2,905,066.30
Furniture, equipment and machinery- dwelling	36,365.00	1,561.00	-----	-----	37,926.00
Furniture, equipment and machinery- administration	70,508.10	8,009.20	(3,230.50)	-----	75,286.80
Leasehold improvements	1,327,732.71	-----	-----	(1,233,382.98)	94,349.73
Construction in progress	<u>8,600.00</u>	<u>43,996.70</u>	<u>-----</u>	<u>-----</u>	<u>52,596.70</u>
	3,039,178.17	<u>\$ 163,822.25</u>	<u>\$ (17,974.89)</u>	<u>\$ -----</u>	3,185,025.53
Accumulated depreciation	<u>2,134,536.96</u>	<u>\$ 146,688.36</u>	<u>\$ (8,265.05)</u>	<u>\$ -----</u>	<u>2,272,960.27</u>
Total	<u>\$ 904,641.21</u>				<u>\$ 912,065.26</u>

3d. Accounts Payable

Payable detail at March 31, 2006, is as follows:

Accounts payable - vendors	\$ 1,386.99
Accounts payable - other government - PILOT	<u>20,734.02</u>
	<u>\$ 22,121.01</u>

3e. Compensated Absences

Accumulated unpaid compensated absences are accrued. The liability for compensated absences at March 31, 2006 is \$9,079.96.

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3f. Non-current Liabilities

As of March 31, 2006, the non-current liabilities are comprised of the following:

Accrued compensated absences - non current portion	\$ <u>2,399.79</u>
Total	\$ <u><u>2,399.79</u></u>

The following is a summary of changes in non-current liabilities for the year ended March 31, 2006:

	<u>Balance March 31, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2006</u>	<u>Amounts Due within One Year</u>
Accrued compensated absences	\$ ----	\$ 2,399.79	\$ ----	\$ 2,399.79	\$ 6,680.17
Total	\$ ----	\$ <u>2,399.79</u>	\$ ----	\$ <u>4,799.58</u>	\$ <u>6,680.17</u>

3g. Interprogram Transactions and Balances

Operating Transfers

	<u>Transfers in</u>	<u>Transfers out</u>
Public and Indian Housing - Low Rent Capital Fund Program	\$ 22,600.00 ----	\$ ---- <u>22,600.00</u>
Total	\$ <u>22,600.00</u>	\$ <u>22,600.00</u>

Transfers are used to move revenues from the program that is authorized to transfer them to the program in accordance with budgetary authorizations.

3h. Unrestricted net assets - Prior-period Error Corrections

Following is the composite of error corrections:

1. Accumulated depreciation - correct depreciation of CFP 2000	\$ 2,290.00
2. Building - reclassify prior year management improvements	(11,902.42)
3. PILOT liability - record PILOT reimbursement	<u>945.00</u>
Totals	\$ <u><u>(8,667.42)</u></u>

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

NOTE 4 - Other Notes

4a. Employee Retirement Plan

Defined Benefit Plan: The Commission has also provided a defined benefit plan. The defined benefit plan is available to all full-time employees not already participating in another plan. In a defined benefit plan, benefits to be provided at a future or after a certain period of time are specified. Benefits vest after 10 years of service.

The Defined Benefit Plan is administered by the City of St. Joseph. Employees contribute 4% of payroll. The plan is fully funded through the City of St. Joseph and no contributions were made by the public housing commission.

4b. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Commission manages these various risks of loss as follows:

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased insurance with Housing Authority Risk Retention Group
b. Injuries to employees (workers' compensation)	Purchased insurance handled through the City of St. Joseph; Claims are administered through the City of St. Joseph
c. Physical property loss and natural disasters	Purchased commercial insurance with \$1,000.00 deductibles.
d. Health and life	Health and Life insurance is purchased through the City of St. Joseph, health insurance with Blue Cross Blue Shield of Michigan and Life insurance is provided by Jefferson Pilot Financial Insurance Company

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

March 31, 2006

NOTE 4 - Other Notes (Continued)

4c. Commitments and Contingencies

Commitments—Construction

At March 31, 2006, the Commission had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
CFP 502-03	\$ 21,810.00	20,833.20
CFP 501-05	122,178.00	51,333.72
CFP 501-06	<u>108,075.00</u>	<u>----</u>
	<u>\$ 252,063.00</u>	<u>\$ 72,166.92</u>

Contingencies

The Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM

March 31, 2006

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 289,734.79	\$ -----	\$ 289,734.79
Investments	122,543.06	-----	122,543.06
Receivable - net of allowances:			
Accounts	981.50	-----	981.50
Accrued interest	806.56	-----	806.56
Prepaid expenses	<u>6,766.00</u>	<u>-----</u>	<u>6,766.00</u>
Total Current Assets	<u>420,831.91</u>	<u>-----</u>	<u>420,831.91</u>
Noncurrent Assets:			
Capital assets:			
Land, improvements, and construction in progress	19,800.00	52,596.70	72,396.70
Other capital assets, net of depreciation	<u>729,983.75</u>	<u>109,684.81</u>	<u>839,668.56</u>
Total capital assets- net	<u>749,783.75</u>	<u>162,281.51</u>	<u>912,065.26</u>
Total Noncurrent Assets	<u>749,783.75</u>	<u>162,281.51</u>	<u>912,065.26</u>
Total Assets	<u>\$ 1,170,615.66</u>	<u>\$ 162,281.51</u>	<u>\$ 1,332,897.17</u>

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

March 31, 2006

	Low Rent Program	Capital Fund Program	Totals
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 22,121.01	\$ -----	\$ 22,121.01
Accrued compensated absences	6,680.17	-----	6,680.17
Tenant security deposit liability	11,291.00	-----	11,291.00
Deferred revenues	<u>6,228.00</u>	<u>-----</u>	<u>6,228.00</u>
Total Current Liabilities	<u>46,320.18</u>	<u>-----</u>	<u>46,320.18</u>
Noncurrent Liabilities:			
Accrued compensated absences	<u>2,399.79</u>	<u>-----</u>	<u>2,399.79</u>
Total Noncurrent Liabilities	<u>2,399.79</u>	<u>-----</u>	<u>2,399.79</u>
Total Liabilities	<u>48,719.97</u>	<u>-----</u>	<u>48,719.97</u>
NET ASSETS			
Invested in capital assets	749,783.75	162,281.51	912,065.26
Unrestricted	<u>372,111.94</u>	<u>-----</u>	<u>372,111.94</u>
Total Net Assets	<u>1,121,895.69</u>	<u>162,281.51</u>	<u>1,284,177.20</u>
Total Liabilities and Net Assets	<u>\$ 1,170,615.66</u>	<u>\$ 162,281.51</u>	<u>\$ 1,332,897.17</u>

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

**COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS BY PROGRAM**

For Year Ended March 31, 2006

	Low Rent Program	Capital Fund Program	Totals
Operating Revenues:			
Rental revenue	\$ 296,533.00	\$ -----	\$ 296,533.00
Operating subsidies- HUD grants	103,255.00	24,181.92	127,436.92
Other revenues	34,398.04	-----	34,398.04
Total operating revenues	434,186.04	24,181.92	458,367.96
Operating Expenses:			
Personal services	169,765.51	-----	169,765.51
Utilities	111,372.84	-----	111,372.84
Operations and maintenance	52,498.07	-----	52,498.07
Insurance	18,321.00	-----	18,321.00
Payment in lieu of taxes	20,734.02	-----	20,734.02
Other supplies and expenses	28,948.96	1,581.92	30,530.88
Depreciation	142,757.62	3,930.74	146,688.36
Total operating expenses	544,398.02	5,512.66	549,910.68
Operating income (loss)	(110,211.98)	18,669.26	(91,542.72)
Non-operating revenues (expenses):			
Interest and investment earnings	13,950.66	-----	13,950.66
Net non-operating revenues (expenses)	13,950.66	-----	13,950.66
Income (loss) before other revenues, expenses, gains, losses and transfers	(96,261.32)	18,669.26	(77,592.06)
Capital contributions	-----	157,612.25	157,612.25
Operating transfers in (out)	22,600.00	(22,600.00)	-----
Change in net assets	(73,661.32)	153,681.51	80,020.19
Net assets at beginning of year	974,457.72	238,366.71	1,212,824.43
Prior period error corrections	(8,667.42)	-----	(8,667.42)
Net assets adjusted at beginning of year	965,790.30	238,366.71	1,204,157.01
Equity transfers	229,766.71	(229,766.71)	-----
Net assets at end of year	\$ 1,121,895.69	\$ 162,281.51	\$ 1,284,177.20

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM

For Year Ended March 31, 2006

	Low Rent Program	Capital Fund Program	Totals
Cash flows from operating activities:			
Cash received from tenants	\$ 297,177.50	\$ -----	\$ 297,177.50
Cash received from HUD grants- operating	103,255.00	24,181.92	127,436.92
Cash received from other operating activities	34,398.04	-----	34,398.04
Cash payments for goods and services	(198,370.69)	(1,581.92)	(199,952.61)
Cash payments to employees-salaries	(121,334.43)	-----	(121,334.43)
Cash payments for employee benefit contributions	(46,607.21)	-----	(46,607.21)
Cash payments for in lieu of property taxes	<u>(18,426.36)</u>	<u>-----</u>	<u>(18,426.36)</u>
Net cash provided (used) by operating activities	<u>50,091.85</u>	<u>22,600.00</u>	<u>72,691.85</u>
Cash flows from noncapital financing activities:			
Operating transfers in (out)	<u>22,600.00</u>	<u>(22,600.00)</u>	<u>-----</u>
Net cash provided (used) from non capital financing activities	<u>22,600.00</u>	<u>(22,600.00)</u>	<u>-----</u>
Cash flows from capital and related financing activities:			
Capital contributions	-----	159,009.00	159,009.00
Receipts (payments) from interprograms	1,396.75	(1,396.75)	-----
Proceeds from sale of assets	97.42	-----	97.42
Payments for capital assets	<u>(6,210.00)</u>	<u>(157,612.25)</u>	<u>(163,822.25)</u>
Net cash (used) for capital and related financing activities	<u>(4,715.83)</u>	<u>-----</u>	<u>(4,715.83)</u>
Cash flows from investing activities:			
Proceeds from sale of (payments) for investments	(2,532.61)	-----	(2,532.61)
Interest and dividends	13,566.04	-----	13,566.04
Receipts (payments) from tenant security deposits	<u>1,579.00</u>	<u>-----</u>	<u>1,579.00</u>
Net cash provided (used) from investing activities	<u>12,612.43</u>	<u>-----</u>	<u>12,612.43</u>
Net increase (decrease) in cash and cash equivalents	80,588.45	-----	80,588.45
Cash and cash equivalents at beginning of year	<u>209,146.34</u>	<u>-----</u>	<u>209,146.34</u>
Cash and cash equivalents at end of year	<u>\$ 289,734.79</u>	<u>\$ -----</u>	<u>\$ 289,734.79</u>

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended March 31, 2006

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (110,211.98)	\$ 18,669.26	\$ (91,542.72)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	142,757.62	3,930.74	146,688.36
Changes in assets and liabilities:			
Receivables	(981.50)	----	(981.50)
Prepaid expenses	11,555.00	----	11,555.00
Accounts and other payables	3,522.84	----	3,522.84
Deferred revenues	1,626.00	----	1,626.00
Compensated absences	<u>1,823.87</u>	<u>----</u>	<u>1,823.87</u>
Net cash provided (used) by operating activities	<u>\$ 50,091.85</u>	<u>\$ 22,600.00</u>	<u>\$ 72,691.85</u>

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

**PHA'S STATEMENT AND CERTIFICATION OF
CAPITAL FUND PROGRAM COSTS**

March 31, 2006

1. Actual Capital Fund Program costs are as follows:

	<u>CFP 501-04</u>
Funds approved	\$ 126,737.00
Funds expended	<u>126,737.00</u>
Excess of Funds Approved	\$ <u>-----</u>
Funds advanced	\$ 126,737.00
Funds expended	<u>126,737.00</u>
Excess (deficiency) of Funds Advanced	\$ <u>-----</u>

2. The costs as shown on the Actual Cost Certificate dated December 2, 2005 submitted to HUD for approval is in agreement with the PHA's records as of March 31, 2006.
3. All costs have been paid and all related liabilities have been discharged through payments.

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

FINANCIAL DATA SCHEDULE

Year Ended March 31, 2006

FDS Line Item No.		Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>	<u>Total</u>
	Assets:			
	Current Assets:			
	Cash			
111	Cash-unrestricted	\$ <u>289,734.79</u>	\$ <u>-----</u>	\$ <u>289,734.79</u>
100	Total cash	<u>289,734.79</u>	<u>-----</u>	<u>289,734.79</u>
	Accounts and notes receivable:			
126	Accounts receivable- tenants-dwelling rents	981.50	-----	981.50
129	Accrued interest receivable	<u>806.56</u>	<u>-----</u>	<u>806.56</u>
120	Total receivables, net of allowance for doubtful accounts	<u>1,788.06</u>	<u>-----</u>	<u>1,788.06</u>
	Current investments:			
131	Investments-unrestricted	122,543.06	-----	122,543.06
142	Prepaid expenses and other assets	<u>6,766.00</u>	<u>-----</u>	<u>6,766.00</u>
150	Total current assets	<u>420,831.91</u>	<u>-----</u>	<u>420,831.91</u>
	Noncurrent Assets:			
	Fixed assets:			
161	Land	19,800.00	-----	19,800.00
162	Buildings	2,794,810.95	110,255.35	2,905,066.30
163	Furniture, equipment and machinery-dwellings	37,926.00	-----	37,926.00
164	Furniture, equipment and machinery-administration	71,926.60	3,360.20	75,286.80
165	Leasehold improvements	94,349.73	-----	94,349.73
166	Accumulated depreciation	(2,269,029.53)	(3,930.74)	(2,272,960.27)
167	Construction in progress	<u>-----</u>	<u>52,596.70</u>	<u>52,596.70</u>
160	Total fixed assets, net of accumulated depreciation	<u>749,783.75</u>	<u>162,281.51</u>	<u>912,065.26</u>
180	Total noncurrent assets	<u>749,783.75</u>	<u>162,281.51</u>	<u>912,065.26</u>
190	Total Assets	\$ <u><u>1,170,615.66</u></u>	\$ <u><u>162,281.51</u></u>	\$ <u><u>1,332,897.17</u></u>

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended March 31, 2006

FDS Line Item No.	Low Rent Program 14.850a	Capital Fund Program 14.872	Total
Liabilities and Equity:			
Liabilities:			
Current Liabilities:			
312	Accounts payable < 90 days	\$ (1,386.99)	\$ (1,386.99)
322	Accrued compensated absences- current portion	(6,680.17)	(6,680.17)
333	Accounts payable -other government	(20,734.02)	(20,734.02)
341	Tenant security deposits	(11,291.00)	(11,291.00)
342	Deferred revenues	(6,228.00)	(6,228.00)
310	Total current liabilities	(46,320.18)	(46,320.18)
Noncurrent Liabilities:			
354	Accrued compensated absences- non current portion	(2,399.79)	(2,399.79)
350	Total noncurrent liabilities	(2,399.79)	(2,399.79)
300	Total liabilities	(48,719.97)	(48,719.97)
Equity:			
508.1	Investment in capital assets , Net of Related Debt	(749,783.75)	(912,065.26)
512.1	Unrestricted Net Assets	(372,111.94)	(372,111.94)
600	Total Liabilities and Equity	\$ (1,170,615.66)	\$ (1,332,897.17)
Revenue:			
703	Net rental revenue	\$ (296,533.00)	\$ (296,533.00)
705	Total tenant revenue	(296,533.00)	(296,533.00)
706	HUD PHA operating grants	(103,255.00)	(127,436.92)
706.1	HUD PHA capital grants	-----	(157,612.25)
711	Investment income-unrestricted	(13,950.66)	(13,950.66)
715	Other revenue	(34,398.04)	(34,398.04)
700	Total revenue	(448,136.70)	(629,930.87)

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended March 31, 2006

FDS Line Item No.	Low Rent Program 14.850a	Capital Fund Program 14.872	Total
Expenses:			
Administrative			
911 Administrative salaries	56,073.21	----	56,073.21
912 Auditing fees	2,130.00	----	2,130.00
914 Compensated absences	1,823.87	----	1,823.87
915 Employee benefit contributions-administrative	16,600.92	----	16,600.92
916 Other operating-administrative	20,172.09	1,581.92	21,754.01
Tenant services			
921 Tenant services-salaries	23,135.35	----	23,135.35
923 Employee benefit contributions-tenant services	10,901.52	----	10,901.52
924 Tenant services-other	6,646.87	----	6,646.87
Utilities			
931 Water	8,599.97	----	8,599.97
932 Electricity	27,671.46	----	27,671.46
933 Gas	75,101.41	----	75,101.41
Ordinary maintenance and operation			
941 Ordinary maintenance and operation-labor	42,125.87	----	42,125.87
942 Ordinary maintenance and operation-materials & other	14,160.60	----	14,160.60
943 Ordinary maintenance and operation-contract costs	38,337.47	----	38,337.47
945 Employee benefit contributions-ordinary maintenance	19,104.77	----	19,104.77
General expenses			
961 Insurance premiums	18,321.00	----	18,321.00
963 Payments in lieu of taxes	20,734.02	----	20,734.02
969 Total operating expenses	401,640.40	1,581.92	403,222.32

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended March 31, 2006

FDS Line Item No.		Low Rent Program 14.850a	Capital Fund Program 14.872	Total
970	Excess (deficit) operating revenue over operating expenses	<u>46,496.30</u>	<u>180,212.25</u>	<u>226,708.55</u>
974	Depreciation expense	<u>142,757.62</u>	<u>3,930.74</u>	<u>146,688.36</u>
	Total expenses other than total operating	<u>142,757.62</u>	<u>3,930.74</u>	<u>146,688.36</u>
1000	Excess (deficit) of revenue over expenses before operating transfers in (out) and depreciation add back	(96,261.32)	176,281.51	80,020.19
1001	Operating transfers in	22,600.00	-----	22,600.00
1002	Operating transfers out	<u>-----</u>	<u>(22,600.00)</u>	<u>(22,600.00)</u>
	Excess (deficit) of revenue over expenses after operating transfers in (out) and depreciation add back	<u>\$ (73,661.32)</u>	<u>\$ 153,681.51</u>	<u>\$ 80,020.19</u>

Khan & Co. LLC

**Report on Compliance and on Internal Control Over Financial Reporting Based
on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of Commissioners
St. Joseph Housing Commission
St. Joseph, Michigan

We have audited the financial statements of the St. Joseph Housing Commission, Michigan, (Commission) as of and for the year ended March 31, 2006, and have issued our report thereon dated October 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

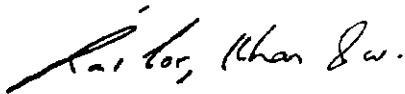
Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the St. Joseph Housing Commission, Michigan's management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Sailor, Khan & Co. LLC
October 17, 2006

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

STATUS OF PRIOR AUDIT FINDINGS

March 31, 2006

The prior audit report for the year ended March 31, 2005 contained n audit findings.

ST. JOSEPH HOUSING COMMISSION

St. Joseph, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

March 31, 2006

FINANCIAL STATEMENT FINDINGS

The current audit report for the year ended March 31, 2006 disclosed no Financial Statement audit findings.

QUESTIONED COSTS

None